

Message Text

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PAGE 01 COLOMB 03184 310345Z
ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 IGA-02 /080 W
-----123141 310350Z /13

P R 310305Z AUG 77
FM AMEMBASSY COLOMBO
TO SECSTATE WASHDC PRIORITY 8034
INFO AMEMBASSY NEW DELHI

LIMITED OFFICIAL USE COLOMBO 3184

E.O. 11652: N/A
TAGS: EFIN, CE

SUBJ: IS SRI LANKA DEVALUING IN SLOW MOTION?

1. BEGIN UNCLASSIFIED: THE AUGUST 30 EDITION OF THE AFTERNOON CEYLON OBSERVER HEADLINE STORY (BYLINE MANIK X SILVA) STATES THAT THE GSL HAS BEGUN A PROCESS OF UNDOING THE EFFECTS OF THE MARCH 12 REVALUATION OF THE RUPEE. THE ARTICLE REFERS TO A CHANGE IN THE RUPEE/DOLLAR PARITY FROM RS. 7.2817 TO RS. 7.3361 ANNOUNCED BY THE CENTRAL BANK ON AUGUST 19, AND A SECOND DOWNWARD ADJUSTMENT TO RS. 7.5562 ON AUGUST 30. OFFICIAL SOURCES ARE QUOTED AS CALLING THIS PROCEDURE A "PEGGED CRAWL" WHEREBY THE RUPEE IS BEING ALLOWED TO FIND A REALISTIC LEVEL VIS-A-VIS THE MAJOR INTERNATIONAL CURRENCIES. THIS METHOD WAS CONSIDERED TO BE PREFERABLE TO A SUDDEN, LARGE DEVALUATION.

2. THE ARTICLE POINTS OUT THAT THE 20 PERCENT REVALUATION OF THE RUPEE WAS UNDERTAKEN BY THE PREVIOUS GOVERNMENT TO REDUCE THE COST OF LIVING BUT THAT DOMESTIC PRICES DID NOT FALL. ON THE OTHER HAND, BUSINESS CIRCLES ARE REPORTED AS SAYING THAT A DEVALUATION WILL PUSH UP LOCAL PRICES. END UNCLASSIFIED.

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3. BEGIN LIMITED OFFICIAL USE: EMBOFF SPOKE WITH DR. WALTER TILAKARATNE, DEPUTY GOVERNOR OF THE CENTRAL BANK, AND WITH A. BANDARANAYAKE, CHIEF OF THE BANKING AND CURRENCY DEPARTMENT OF THE CENTRAL BANK, BOTH OF WHOM REFUSED TO CONFIRM THE OBSERVER STORY. TILAKARATNE SAID THERE HAD BEEN NO PARITY ADJUSTMENTS SINCE THE MARCH 12 REVALUATION, AND THE CHANGES ON

AUGUST 19 AND 30 REFLECTED ONLY THE NORMAL ADJUSTMENTS TO
FLUCTUATIONS IN THE VALUE OF THE BASKET OF CURRENCIES TO WHICH
THE RUPEE IS TIED.

COMMENT: DE SILVA IS ONE OF THE BEST REPORTERS IN SRI LANKA,
AND IT SEEMS UNLIKELY THAT HE WOULD WRITE A STORY WITHOUT
GOOD FOUNDATION. THE EMBASSY WILL BE IN TOUCH WITH OTHER
SOURCES OVER THE NEXT FEW DAYS AND WILL REPORT FURTHER.
WRIGGINS

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NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ANTIINFLATIONARY PROGRAMS
Control Number: n/a
Copy: SINGLE
Sent Date: 31-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977COLOMB03184
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770314-0530
Format: TEL
From: COLOMBO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t1977085/aaaaadnc.tel
Line Count: 70
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: ed148b58-c288-dd11-92da-001cc4696bcc
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 24-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1565340
Secure: OPEN
Status: NATIVE
Subject: IS SRI LANKA DEVALUING IN SLOW MOTION?
TAGS: EFIN, CE
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/ed148b58-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009